

# Moscow Financial Weekly

For the week ending March 14, 2003  
Treasury Attache's office, U.S. Embassy Moscow

## Highlights

- Currency Control bill passes first reading

## Key Economic Indicators

Indicators	Level	% chg 1 week	% chg since Jan. 1
Ruble/\$ (MICEX) UTS	R31.3820	-0.57	-1.27
Monetary Base*	R938.9 bln	4.17%	-0.15**
CPI	NA	NA	4.1
International Reserves*	\$54.6 bln	2.83	14.47
RTS Index (end of week)	379.54	-3.11	5.70%
Refinancing rate	18	0	-3

\*For week prior

\*\* % chg from the abnormally high seasonal level at the end of the year.

## Economic Developments

Many **macroeconomic indicators** from the first two months of 2003 seem to point to a stronger than expected growth for this time of year. Industrial output registered 6.5% y-o-y in February and 4.9% in January, led by export industries and increased electricity output, and the PMI index has crept back up to 50 in January -- a slight recovery from the December contraction. We continue to see continued strong consumer spending as real disposable incomes rose 16.4% y-o-y in January, and real monthly wages increasing 17% y-o-y in January. The trade surplus has also seen growth - preliminary data from MEDT shows exports in January up 31% y-o-y, based on high commodity prices and strong volume growth. External debt at the end of 2002 has been lowered to 34% of GDP. All indicators, however, point to the continued dependence of the economy on the natural resource sector, thus fueling debate in the government on tax reform and economic diversification. However, a recent World Bank survey shows that perceptions of the Russian business climate have improved which, if sustained, could influence investors, to look more seriously at other sectors of the economy.

## Banking sector

On March 14 the Duma, as expected, passed in first reading the government draft of the **currency regulation and currency control bill**. The bill was approved by 287 votes to 117, with 4 abstentions, which could be considered unusual given the strong support earlier for the alternative RSPP draft. At a breakfast briefing with the American

For the weeks ending February 28 and March 7, 2003

Chamber of Commerce, Mikhail Zadornov, Chairman of the Budget Committee, stated that it would take another six months to reconcile provisions of the bill with current securities legislation and CBR regulations, and that the bill could be passed during the fall session of the Duma, with implementation in 2004. While the position of RSPP is well known, the banking community also raised its voice, with concerns that provisions allowing Russian business and individuals to open bank accounts in OECD countries would interfere with development of the domestic banking system and hinder cross-border credit transactions. Many Duma members objected to provisions that give the Central Bank too much discretion in determining what is considered a balance of payments crisis for re-imposition of controls. The bill also lacks details on procedures for managing such a crisis. The CBR has proposed that it would offer its recommendation to the government on whether a crisis situation exists, and the government would have 15 days to make a final decision, at which point currency controls could be imposed. This may not be enough to satisfy the Duma, however. An initial "Open Forum" hearing in the Duma is scheduled for April 8.

The share of gold in **Russia's gold and currency reserves** should be 10%, First Deputy CBR Chairman Oleg Vyugin told Duma deputies last Friday. "This is the structure of reserves we are aiming at," Vyugin said adding that the share of gold is declining as the currency component of reserves' growth is accelerating. He explained that reserves went up by \$7 billion since the beginning of the year " because everyone likes Russian ruble now, holders of foreign assets are actively buying it up, selling foreign currency in exchange."

Vyugin also for the first time admitted that **inflation in 2003** would exceed 13% - something that has been obvious to many analysts for quite a while. He said that inflation for the year would depend on budgetary policy and on what the GOR would do with oil-export revenues. Vyugin also raised his forecast for reserves at the end of 2003 to \$60 billion. Each month core inflation is 0.8-0.9%, he said, but in January and February tariffs' hike had strong impact on overall inflation and in March inflation would go down to around 1%.

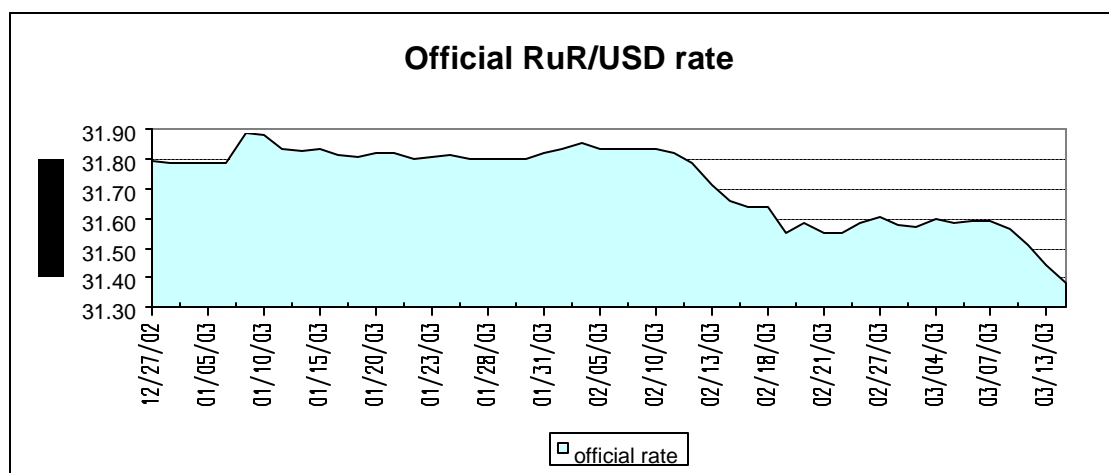
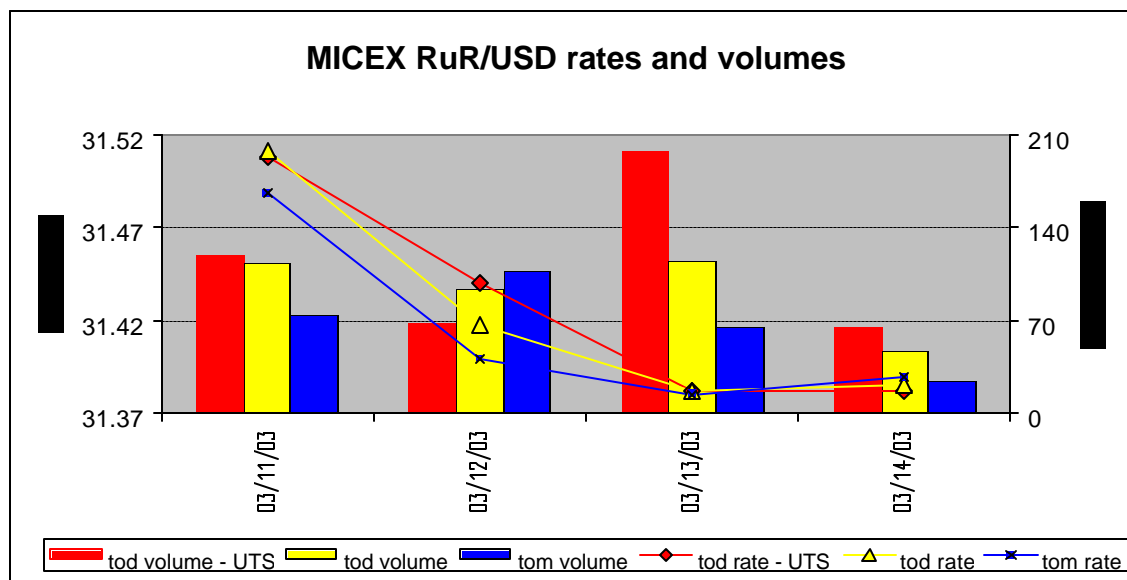
## **Financial markets**

### **Forex Market**

The CBR, which has been practically the sole buyer of dollars since late January, did not intervene in the dollar-ruble market after the Russian bridge holiday on Monday. Without the CBR's support, the dollar weakened 5.43 kopeks on Tuesday, 6.69 kopeks on Wednesday and went on sliding on Thursday morning towards a 9-month low until the CBR came back to the UTS with a bid at R31.3800/\$. This intervention put an end to the dollar's slide and on Friday it even inched back up.

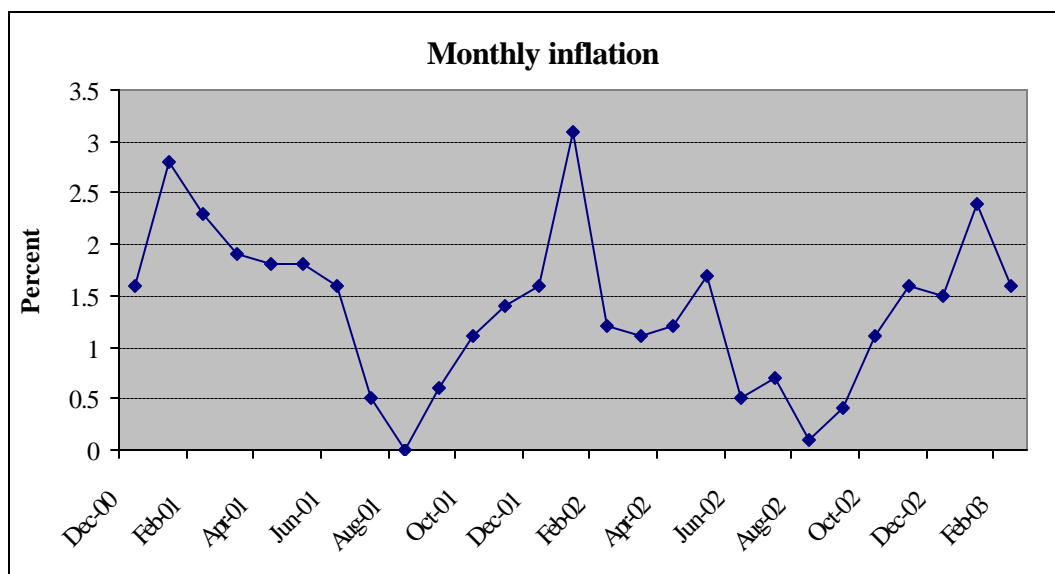
For the week the dollar weakened 0.57% against the ruble, closing in the UTS on Friday at R31.3820/\$. MICEX weekly trade volumes were \$451.99 million, \$369.00 million

and \$272.54 million for the morning (UTS), afternoon "tod" and "tom" sessions, respectively.



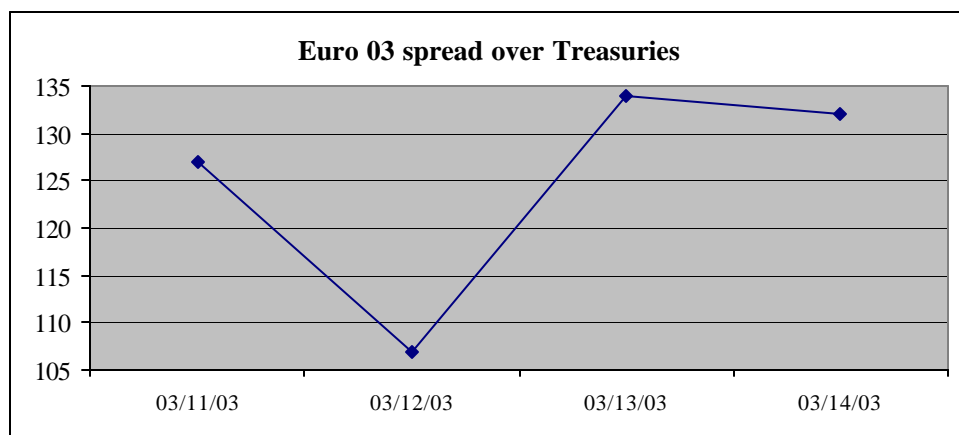
## Prices

The estimates of inflation for the month of March differ among Ministries. While the Finance Ministry has announced its forecast of 1.5% for the month, the Ministry of Economy and the CBR project a price growth of around 1% in March m-o-m.

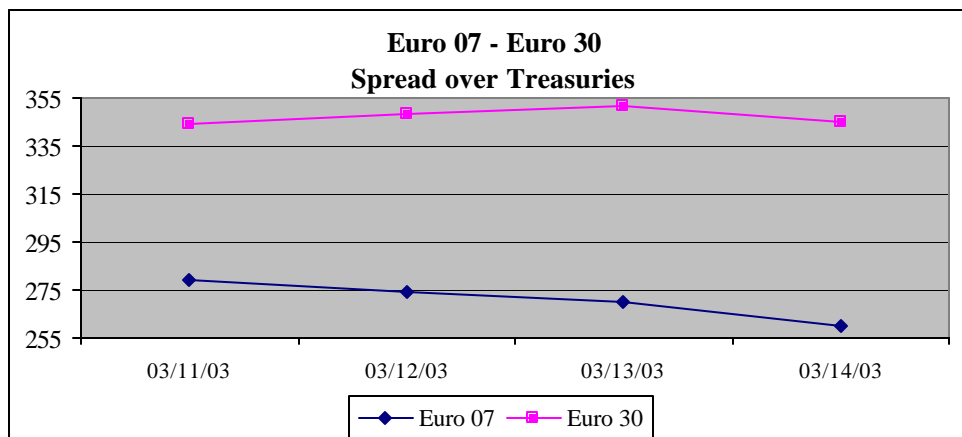


### Eurobonds

Practically all Russian Eurobonds issues were down last week -- a technical correction after a boom in the beginning of March. The downward movement started on Monday and went through the rest of the week with a slight interruption on Wednesday. Some of the players were transferring resources to the Brazilian debt market where an upward surge began at the end of the week. The news about the \$1.5 billion increase in the international reserves was ignored. The situation with Iraq is still the main factor determining the movements in this sector of the market as many players consider that in case of war the Russian sector would be less vulnerable than the others.



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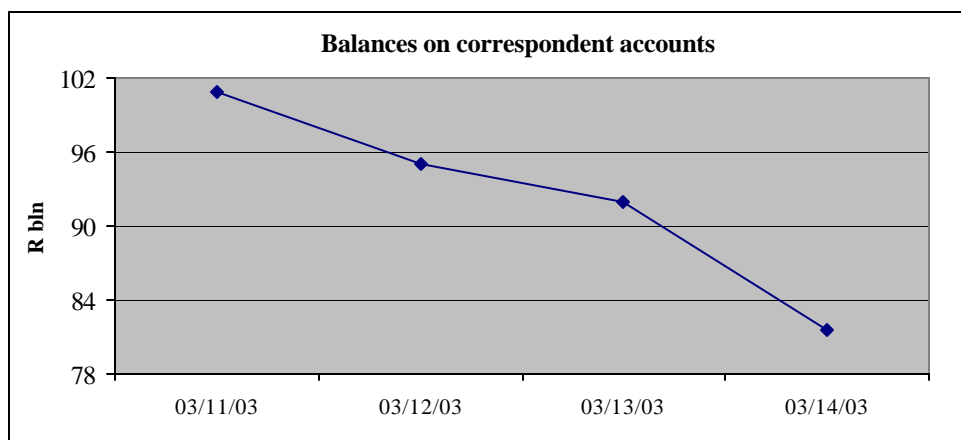
### Interest/Bond Market

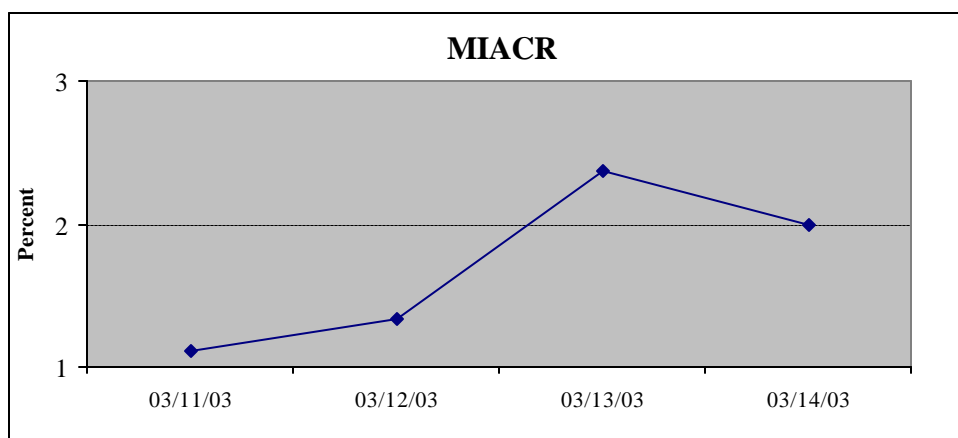
#### *Bonds/Bills*

The secondary OFZ/GKO market continued to boom last week despite very low yields. The factors driving the market up were again high balances of banks' correspondent accounts as well as the depreciating dollar on the local currency market. High ruble liquidity holds the players back from profit-taking, which cuts the supply on the market. The Finance Ministry made additional placement of OFZ issues, for a total of R1.78 billion during the week. Unsatisfied demand and successful results of this auction also contributed to the rally last week.

#### *Overnight rates*

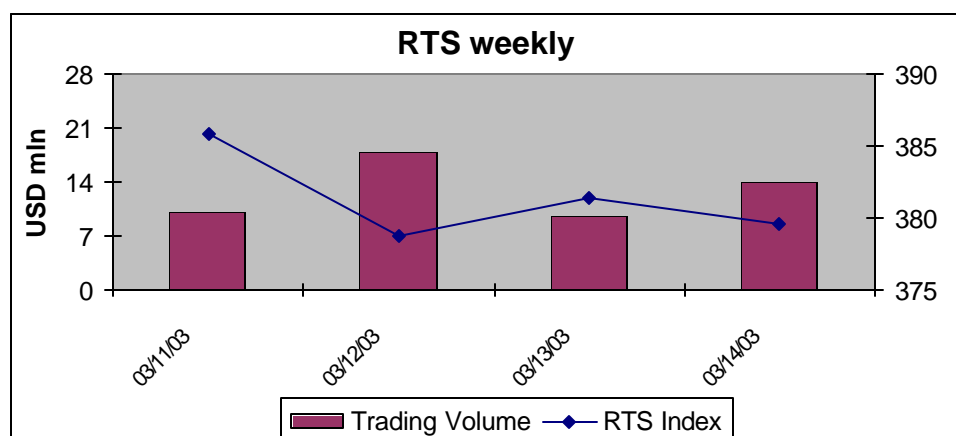
Even though the balances on banks' correspondent accounts were continuously dropping throughout the short week, there was no ruble shortage on the market. The overnight rates remained at below average levels fluctuating in the narrow range of 1-3% p.a. again.

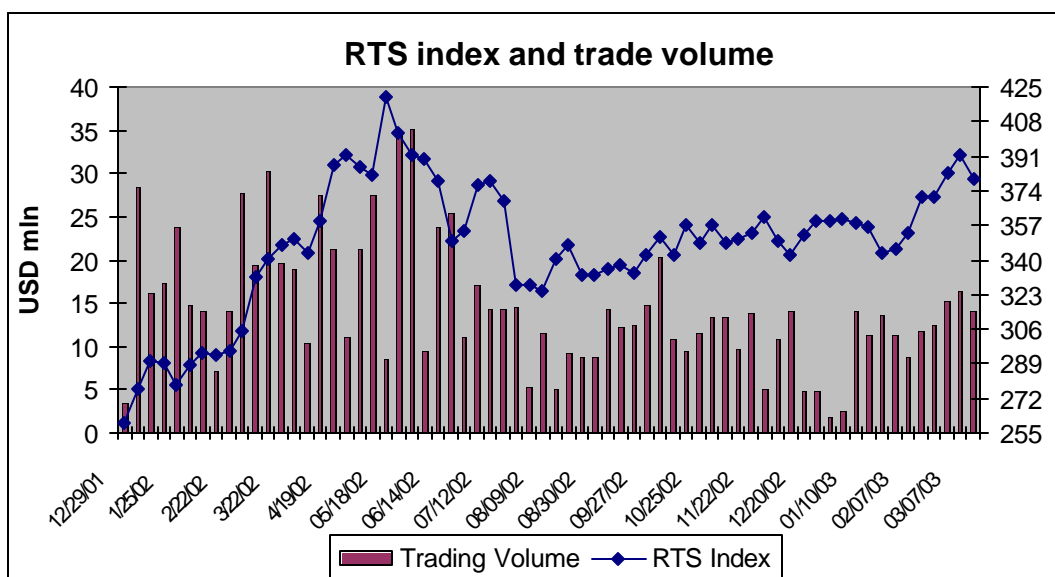
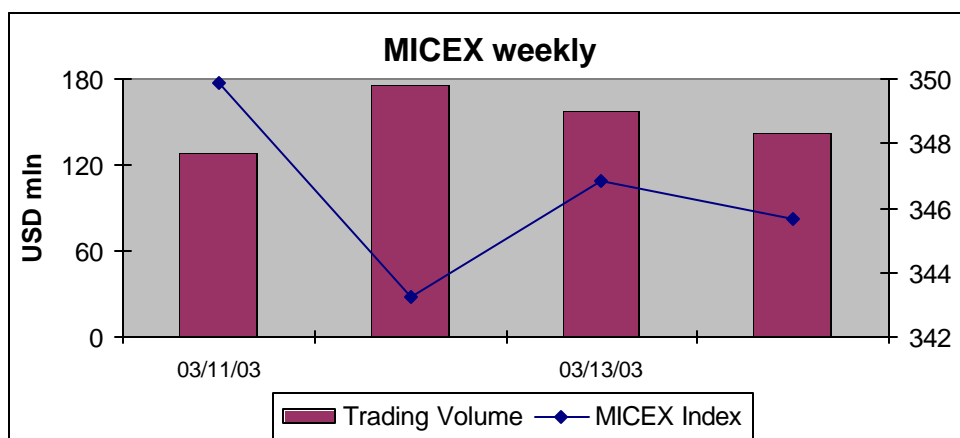




### Stock Market

The Russian stock market fell last week, depressed by negative news from abroad. Oil shares were among the main losers of the week. Sibneft shares, however, were moving in the opposite direction from the market on Friday after the news of a planned increase in dividend payments. The shares were up by 9% as a result, in part because the announcement was somewhat unexpected by the market. However, the overall market fell below the 380 level that day as many players were fixing profits before the weekend. The RTS index was down by 3.11% for the first time in two weeks.

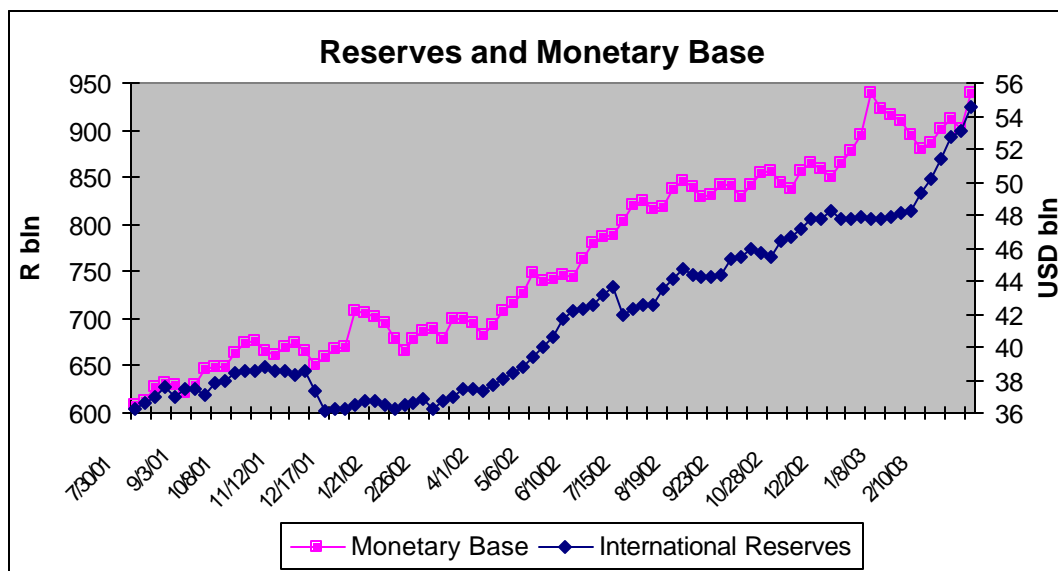




### International Reserves and Monetary Base

International reserves of the CBR leaped up last week by as much as \$1.5 billion and reached a new high of \$54.6 billion. According to the revised projections of First Deputy Minister Oleg Vyugin, reserves will be up at \$60 billion by the end of the year, given the unexpectedly prolonged period of high oil prices. At the end of the last year, Vyugin's forecast was more conservative - \$55 billion by the end of 2003.

The monetary base has dropped -- as of March 11, it totaled R938.9 billion which is R37.6 billion higher than a week before. It's already very close to the record high level of R940.3 billion achieved during the seasonal leap at the end of the last year.



## EXPLANATORY NOTES

**1. EXCHANGE RATES:** SELT - "System of Electronic Lot (currency) trading" -- a computer based OTC-style trading system organized by the Moscow Interbank Currency Exchange (MICEX). MICEX Unified Trading Session (UTS) is the one in which exporters have to sell 50% of the repatriated currency. UTS fix (rounded) becomes the "official" ruble rate for the next day. "\$-tod" price is the price of the dollar with same day delivery. "\$-tom" is the price of the dollar with delivery on the next day. Minimum lot size for each of the dollar instruments is \$100,000. Average price is quoted as the weighted average of all actual deals entered into the system by various banks.

**2. INTEREST RATES:** Moscow InterBank Actual Credit Rate is calculated as the average-weighted rate on the volume of actual transactions in interbank loans by commercial banks.

**3. STOCK INDICES:** The RTS index is the only official indicator of the Russian Trading System. It is calculated every 30 minutes of the RTS trade session, starting at 12:00. It comprises 60 shares of 35 leading companies. These shares are included in so-called Category "A" listings. The index indicates over-the-counter stock prices. The index represents the ratio of the total market capitalization of the shares of the companies selected for the index to the total market capitalization of the same shares as of the initial date multiplied by the index value as of the initial date (31 December 1997) using a base of 100 beginning September 1, 1995. The ruble-adjusted index is a derivative of the main dollar index, using the same base. The MICEX index is calculated by the stock section of the Moscow Interbank Currency Exchange and is based on the price fluctuations of 17 shares of the MICEX's first and second listings.

**4. INTERNATIONAL RESERVES OF THE RUSSIAN FEDERATION** represent the amount of reserve assets of the Bank of Russia and Finance Ministry. Those reserve

assets are comprised of monetary gold, special drawing rights, the reserve position in the IMF and other liquid foreign assets. The latter include short-term deposits in non-resident and resident banks, balances in current accounts, foreign government securities, repo agreements with these securities made with non-residents, and other liquid assets (accrued interest on these assets is not included). Monetary gold is evaluated at a floating rate, revised periodically, but not always reported immediately. Foreign currency assets are converted into U.S. dollars on the basis of the cross rates of foreign currencies to the dollar, calculated using the official rates of the ruble to these foreign currencies, as set by the CBR.

**5. MONETARY BASE (M1)** is comprised of cash and reserves of commercial banks on deposit in the CBR. It is the basic part of the money supply (M2).

**6. LOMBARD CREDITS**, distributed through auctions, are aimed to provide liquidity to the banking sector. These credits are extended to banks on the basis of collateral.